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RUEHCV/AMEMBASSY CARACAS 1788
RUEHKL/AMEMBASSY KUALA LUMPUR 0016
RUEHLP/AMEMBASSY LA PAZ JUN LIMA 0655
RUEHME/AMEMBASSY MEXICO 1491
RUEHSG/AMEMBASSY SANTIAGO 2970
RUEHGL/AMCONSUL GUAYAQUIL 0639
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C O N F I D E N T I A L QUITO 001438

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PASS TO USTR FOR BENNETT HARMAN

E.O. 12958: DECL: 06/12/2016
TAGS: EPET EINV ECON PREL EC
SUBJECT: ECUADOR SOLICITS OIL HELP FROM ABROAD

REF: A. QUITO 1066
 1B. QUITO 1216
 1C. MEXICO 2888
 1D. BOGOTA 5012
 1E. QUITO 1315

Classified By: Ambassador Linda L. Jewell, Reasons 1.4 (b&d)

11. (C) Summary. There are nearly daily press reports that the GOE is about to get assistance from a variety of countries to manage or invest in Ecuador's oil sector, especially the fields previously managed by Occidental Petroleum. Private reports we have received indicate the rush to invest in Ecuador is not as great as the GOE would like the world, and especially the Ecuadorian public, to believe. The Palacio Administration is desperate to portray the investment environment and oil sector as unaffected by their seizure of Occidental Petroleum's assets. However, their wishful thinking may not jibe with reality. End Summary.

Keep Saying it and it Might Come True

12. (C) Since the April unilateral revision of private oil contracts (reftel A) and the May 15 contract nullification and seizure of Occidental Petroleum's (Oxy) assets (reftel B), the GOE has been desperate to show that foreign investors are interested in the oil sector here and that it can run Oxy's former operations. The Palacio Administration has said in various press reports throughout the last several weeks that Mexico, Chile, China, Colombia, Venezuela and Malaysia have each said they were considering investing in Ecuador's oil sector.

13. (C) Mexican oil company Pemex said it has not been approached by the GOE and does not even engage in the type of foreign investment that Ecuador is seeking (reftel C). The General Manager of Andes Petroleum (the Chinese consortium that purchased Canadian oil company EnCana's assets in Ecuador) told Econoffs that the Chinese are not interested in investing more in Ecuador, after having lost most of their recent \$1.4 billion investment here. Embassy Kuala Lumpur reported in a recent email to Econoff that they had not heard of any supposed Malaysian interest in the Ecuadorian oil sector.

¶ 4. (C) Colombian President Uribe will likely offer some technical cooperation with the GOE when he visits Quito this week (reftel D). However, the GOC's sensitivity to USG concerns and recognition that Oxy has considerable investments in Colombia will likely limit the extent of their interest in Oxy's former operations. There are repeated news reports, including an interview with the outgoing Chilean Ambassador on June 12, indicating that the Chilean state oil company is interested in the Ecuadorian oil fields.

¶ 5. (C) In a recent visit and with much fanfare, Venezuelan President Hugo Chavez announced two oil-related agreements were reached with the GOE, but the agreements themselves lacked the needed specifics for execution (reftel E). Last week, the press again reported that Venezuela offered to refine Ecuadorian crude for \$5 per barrel, but again no definitive agreement has been reached. While previous Chavez economic offers to Ecuador have turned out to be more rhetoric than real, his interest in gaining a foothold in Ecuador is high, and he may be willing to make an offer too good for the GOE to turn down.

Production Declines in Oxy's Former Fields

¶ 6. (C) According to various reports, production in Oxy's former operations has dropped as much as 30% from its previous 100,000 barrels per day production levels. The GOE continues to maintain that there has been no significant drop in production. But we continue to receive reports that corroborate the rumored problems. French-based Schlumberger, which supplies the deep well pumps in the former Oxy fields, has allegedly had three pumps burn out and PetroEcuador was forced to shut in production of several other wells. PetroEcuador already supposedly owes Schlumberger \$30 million for work done at PetroEcuador's fields.

¶ 7. (C) U.S. oil supply company Baker Hughes has not done any work for PetroEcuador since the May 15 takeover. Previously, at a minimum, it conducted monthly maintenance on its equipment at the Oxy site. Baker Hughes representatives told Econoff last week that PetroEcuador does not have the expertise to service the Baker Hughes equipment and that, since PetroEcuador owes them \$15 million from previous services, they are reluctant to accept a subrogation offer from PetroEcuador to substitute PetroEcuador for Oxy in their maintenance agreement contract. They reported that other suppliers are similarly concerned about payment prospects.

¶ 8. (U) PetroEcuador owes tens of millions of dollars to its suppliers. Local communities are now also demanding that PetroEcuador follow through on the millions of dollars worth of road paving and other social projects that Oxy and EnCana used to do.

Comment

¶ 9. (C) The Palacio Administration will continue to seek out state-oil companies to bolster its lack of necessary expertise to manage Oxy's high-tech former operation and to bolster its assertion that its recent hydrocarbon law and Oxy follies have not had a negative impact on the sector and the country. At the same time, it will try to downplay or cover up any production declines in the former Oxy operations. Where there is this much money to be made, nothing can be ruled out. But if recent history is any indication, the GOE may fall short of its goals.

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